1/88 S6615-2

DECEMBER 1987

OREGON LABOR TRENDS

NOVEMBER INDICATORS

UNEMPLOYMENT RATE

Oregon		*(Seas. Adj)*
Nov.	1987	5.7
Oct.	1987	6.3
Nov.	1986	7.9
U.S.		
Nov.	1987	5.9
Oct.	1987	6.0
Nov.	186	6.9

WAGE AND SALARY EMPLOYMENT INDEX

Oregon	*1977=100*	
Nov.	1987	118.7
Oct.	1987	118.0
Sept.	1987	117.3
Aug.	1987	117.3
July	1987	117.7

DIFFUSION INDEX

Oregon		
Nov.	1987	55.0
Oct.	1987	53.5
Sept.	1987	55.4
Aug.	1987	60.9
July	1987	64.7

PRODUCTION WORKER AVERAGE HOURLY EARNINGS

Oregon		
Oct.	1987	$10.47
Sept.	1987	$10.65
Oct.	1986	$10.38

CONSUMER PRICE INDEX (CPI)

1967=100
ALL URBAN CONSUMERS

Portland-Vancouver	
July 1987	321.6
Yearly change	1.6%
Annual Average 1986	316.8
Yearly change	1.4%
U.S.	
Nov. 1987	345.8
Yearly change	4.5%
Annual Average 1986	328.4
Yearly change	1.9%

Portland Hotline 221-4132

EMPLOYMENT GROWTH....IN NOVEMBER?

by Arthur Ayre

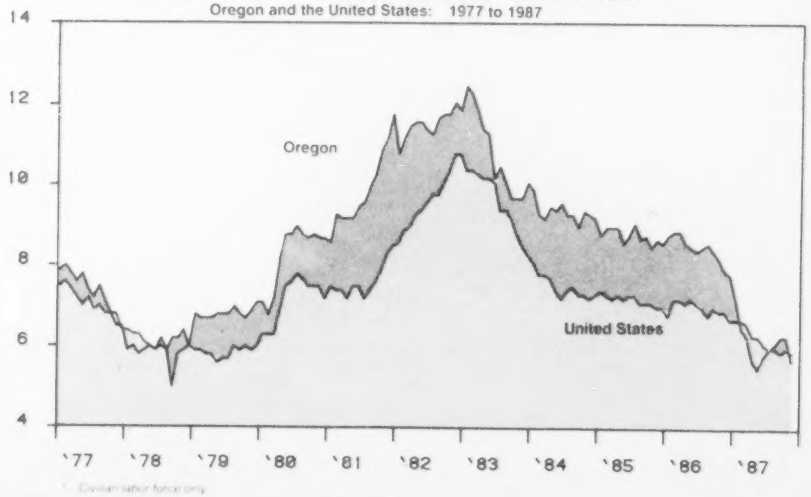
Since 1947, when Oregon's monthly employment statistics began, each November has seen a decline in both total employment and nonagricultural wage and salary employment from the October levels. This year, however, both measures of employment rose in November. The explanation of such a deviation from the norm is not simple.

Employment normally declines in the fall and winter with the end of seasonal jobs in agriculture, food processing, lumber and wood products, and construction. The normal October to November decline in total employment, based on an average of the past five years, is almost 14,000. This November saw a gain of 11,000 jobs. The November average nonagricultural wage and salary employment decline, also based on the past five years, is almost 5,000. This November we had a gain of 1,500 jobs. There are at least three possible factors which may have combined to create this unseasonal employment growth:

1. The long-term trend of declining seasonality in employment.
2. The unusual growth in lumber and wood products employment in November brought about by the end of logging restrictions put in place during this summer's forest fires.
3. The current economic expansion and general employment growth.

Over the past forty years, Oregon's employment has shifted away from the highly seasonal jobs in the fields, forests, canneries, and sawmills and toward the year-round jobs in offices, warehouses, stores, and factories. In 1947, lumber and wood products made up almost 18% of nonagricultural wage and salary employment, and food and kindred products accounted for about 5%. In 1986, these industries' portions were 6% and just over 2%, respectively.

SEASONALLY ADJUSTED UNEMPLOYMENT RATES
Oregon and the United States: 1977 to 1987



* Civilian labor force only

Not only have the seasonal industries become a smaller portion of Oregon's employment, some have also become less seasonal themselves. In 1950, lumber and wood products employment reached a peak of 95,800 in August and fell to a low of 78,000 in December. This is a decline of over 18% in four months. In 1986, the industry peaked in September at 66,400 and fell to 63,200 in February of 1987, a decline of about 5% over five months.

Of the seasonality that remains in Oregon's employment, more of it can be found concentrated in two major industries. During the decade of the 1950s, the average October to November decline in nonfarm payroll employment was 12,000. About 61% of this decline could be found in lumber and wood products (-4,000) and in food and kindred products (-3,300). In the first seven years of the 1980s, the average November decline was 6,800. Over 85% of this loss was seen in lumber and wood products (-1,600) and in food and kindred products (-4,200).

Although the decline in the seasonality of Oregon's employment may help explain a part of this month's unusual employment increase, the seasonality that remains would still predict a decline of about 5,300. It would be reasonable to assume that something unusual had occurred in the seasonality of at least one major industry. Indeed, in the month of November, lumber and wood employment increased by 1,400. Normally, it would have declined by about 1,200. The growth in these jobs was due primarily to the lifting of months-long restrictions on logging in forests which were either tinder-dry or already ablaze from a long, parching summer. Due to these restrictions many lumber mills were unable to build log inventories and are now providing a solid market for the logs that are finally being taken from Oregon's forests. The loggers, many of whom were forced to sit out the summer months when they normally cut timber, have now returned to the woods to cut what they can before the weather makes logging impossible. This atypical shift of logging activity from summer to late fall and early winter has resulted in the lumber and wood products employment gain in November, and helps explain the unusual growth in the aggregate employment figures.

Another factor in explaining the November employment increase might be general economic growth. The nation has been in various stages of an economic expansion for several years, and Oregon has belatedly taken part in this recovery. The growth in Oregon's nonagricultural wage and salary employment between 1986 and 1987 is projected to be 37,300 (3.5%). This equates to an average monthly growth of 3,100 jobs. In 1986, the comparable figures were 26,500 (2.6%) growth in employment over the year, or about 2,200 jobs per month.

Industry employment figures reflect this trend of employment growth. Lumber and wood products was only one of the industries to show exceptional strength in employment in November (although it is the easiest to explain). Indeed, all major industry sectors showed either normal or better than normal seasonal changes. Both the construction and food and kindred products industries lost fewer employees than is usual for November. Trade and services both gained more employment than seasonally expected in November, with the strength centered in wholesale trade and in business and professional services.

As a result of both the unseasonally good employment changes and similarly good news in the estimates of the number of unemployed, the seasonally adjusted unemployment rate in Oregon plunged from October's 6.3% to 5.7%. This is the lowest level in six months and the lowest November level since Oregon's seasonally adjusted unemployment rates were first published in 1972. Rounding out the spate of good news, the national unemployment rate also declined in November, from 6.0% to 5.9%. All in all, it was a remarkable month for employment data, and yes, we had employment growth...in November! □

RESIDENT OREGON LABOR FORCE

	NOV.[1] 1987	OCT.[2] 1987	CHANGE	%CHANGE	NOV.[5] 1986
CIVILIAN LABOR FORCE[3]	1,396,000	1,383,500	12,500	0.9	1,362,000
UNEMPLOYMENT	78,300	76,800	1,500	2.0	107,100
PERCENT OF LABOR FORCE	5.6	5.6	XXX	XXX	7.9
SEASONALLY ADJUSTED PERCENT	5.7	6.3	XXX	XXX	7.9
TOTAL EMPLOYMENT[3]	1,317,700	1,306,700	11,000	0.8	1,254,900

1/ Preliminary. 2/ Revised. 3/ Includes employed and unemployed individuals 16 years and older. Data are adjusted for multiple job-holding and commuting. 4/ Includes nonagricultural wage and salary, self-employed, unpaid family workers, domestics, farm workers, and labor disputants. 5/ Due to revised estimating procedures between December 1986 and January 1987, data for 1987 and that of previous years are not strictly comparable.

NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT (BY PLACE OF WORK)

INDUSTRY	NOV.[1] 1987	OCT.[2] 1987	NOV. 1986	CHANGE FROM OCT. 1987	CHANGE FROM NOV. 1986
TOTAL[3]	1,124,200	1,122,700	1,077,400	1,500	46,800
WAGE & SALARY EMPLOYMENT INDEX[4]	118.7	118.0	113.8	XXX	XXX
DIFFUSION INDEX[5]	55.0	53.5	48.5	XXX	XXX
TOTAL MANUFACTURING	204,100	206,300	195,900	-2,200	8,200
DURABLE GOODS	148,800	147,600	141,400	1,200	7,400
LUMBER & WOOD PRODUCTS	67,700	66,300	65,100	1,400	2,600
LOGGING & SAWMILLS	34,800	33,500	33,700	1,300	1,100
VENEER & PLYWOOD	17,700	17,700	17,200	0	500
MILLWORK & STRUCTURAL WOOD	9,900	9,700	9,300	200	600
MOBILE HOMES	1,500	1,600	1,300	-100	200
OTHER WOOD PRODUCTS	3,800	3,800	3,600	0	200
FURNITURE AND FIXTURES	2,600	2,500	2,600	100	0
STONE, CLAY, GLASS & CONCRETE	3,400	3,600	3,000	-200	400
PRIMARY METALS	9,500	9,500	8,300	0	1,200
BLAST FURNACES, IRON & STEEL	5,700	5,600	5,100	100	600
NONFERROUS METALS	3,800	3,900	3,200	-100	600
FABRICATED METALS	10,700	10,900	10,400	-200	300
FABRICATED STRUCTURAL METALS	4,600	4,800	4,500	-200	100
OTHER FABRICATED METALS	6,100	6,100	5,900	0	200
MACHINERY	15,300	15,300	14,500	0	800
ELECTRICAL EQUIPMENT & SUPPLIES	13,700	13,700	12,800	0	900
TRANSPORTATION EQUIPMENT	10,600	10,500	10,100	100	500
INSTRUMENTS & RELATED PRODUCTS	12,100	12,000	12,100	100	0
MISCELLANEOUS MANUFACTURING	3,200	3,300	2,500	-100	700
NONDURABLE GOODS	55,300	58,700	54,500	-3,400	800
FOOD & KINDRED PRODUCTS	22,800	26,200	23,800	-3,400	-1,000
CANNING & PRESERVING	11,900	15,500	12,800	-3,600	-900
OTHER FOOD PRODUCTS	10,900	10,700	11,000	200	-100
TEXTILE MILL PRODUCTS	1,600	1,700	1,500	-100	100
APPAREL	2,400	2,400	2,400	0	0
PAPER & ALLIED PRODUCTS	8,800	8,900	8,800	-100	0
PRINTING & PUBLISHING	12,800	12,500	11,700	300	1,100
CHEMICALS & ALLIED PRODUCTS	2,100	2,100	2,100	0	0
PETROLEUM REFINING	400	500	400	-100	0
RUBBER & PLASTIC PRODUCTS	3,900	3,900	3,400	0	500
LEATHER PRODUCTS	500	500	400	0	100
TOTAL NONMANUFACTURING	920,100	916,400	881,500	3,700	38,600
MINING & QUARRYING	1,400	1,500	1,300	-100	100
CONSTRUCTION	36,000	38,200	33,000	-2,200	3,000
TRANSPORTATION, COMMUNICATIONS, & UTILITIES	58,200	58,200	58,300	0	-100
TRANSPORTATION	37,200	37,200	37,100	0	100
RAILROAD	4,100	4,200	4,300	-100	-200
TRUCKING & WAREHOUSING	21,800	21,600	21,600	200	200
OTHER TRANSPORTATION	11,300	11,400	11,200	-100	100
COMMUNICATIONS	12,600	12,600	12,700	0	-100
UTILITIES	8,400	8,400	8,500	0	-100
TRADE	287,200	284,300	276,300	2,900	10,900
WHOLESALE TRADE	70,400	70,800	68,400	-400	2,000
DURABLE GOODS	41,500	41,500	39,700	0	1,800
NONDURABLE GOODS	28,900	29,300	28,700	-400	200
RETAIL TRADE	216,800	213,500	207,900	3,300	8,900
GENERAL MERCHANDISE	29,100	27,700	28,200	1,400	900
FOOD STORES	36,200	35,900	33,500	300	2,700
AUTO DEALERS & SERVICE STATIONS	25,200	25,700	25,100	-500	100
OTHER RETAIL TRADE	126,300	124,200	121,100	2,100	5,200
FINANCE, INSURANCE, & REAL ESTATE	72,900	73,200	70,700	-300	2,200
BANKING & CREDIT AGENCIES	23,800	23,800	23,900	0	-100
OTHER FINANCE, INSURANCE, & REAL ESTATE	49,100	49,400	46,800	-300	2,300
SERVICES	249,500	249,100	235,200	400	14,300
HOTELS & PERSONAL SERVICES	26,300	27,100	24,900	-800	1,400
HEALTH SERVICES	76,400	76,300	73,600	100	2,800
OTHER SERVICES	146,800	145,700	136,700	1,100	10,100
GOVERNMENT	214,900	211,900	206,700	3,000	8,200
FEDERAL GOVERNMENT	30,400	30,800	28,400	-400	2,000
STATE GOVERNMENT	61,100	60,300	56,300	800	4,800
EDUCATION	25,500	24,900	25,300	600	200
OTHER STATE	35,600	35,400	31,000	200	4,600
LOCAL GOVERNMENT	123,400	120,800	122,000	2,600	1,400
EDUCATION	79,600	76,800	78,900	2,800	700
OTHER LOCAL	43,800	44,000	43,100	-200	700
LABOR - MANAGEMENT DISPUTES	0	0	100	0	-100

1/ Preliminary
2/ Revised
3/ Includes full and part-time nonfarm wage and salary workers in pay periods including the 12th of the month. Proprietors, self-employed, private household workers and armed forces excluded. Note: Estimated in cooperation with the U.S. Bureau of Labor Statistics and Employment and Training Administration. All data are based on the 1972 Standard Industrial Classification (SIC) codes as amended by the 1977 supplement.
4/ Total nonagricultural wage and salary employment, seasonally adjusted, and indexed to 1977. Data on the earlier index (1972 = 100) can be converted to the 1977 base period by multiplying by a factor of .8264, the ratio between 1972's Annual Average Employment (774,300) and that of 1977 (936,900).
5/ The Diffusion Index is the percentage of a selected group of 43 industries showing an increase in seasonally adjusted employment. Half of those industries showing no significant change (less than 1/2 of 1%) are counted as increasing.

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Duane Ackerson

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NEW LMI PUBLICATION

Did you ever wonder how important a particular industry was to Oregon's economy or any one of its counties in terms of number of firms, number of employees, or total payroll? Or how about the average annual pay earned by workers in specific industries or areas of the State? If so, you are in luck! The answers to these and other related questions are contained in the **Oregon Covered Employment and Payrolls by Industry and County, 1986** publication which is now available. At the State level, firm counts, employment and payroll data are given at the four-digit industry level (using Federal Standard Industrial Classification codes). County level data is shown at the two-digit industry code level.

The October issue of **Oregon Labor Trends** contained an article on average annual pay for the various states and for selected industries and major metropolitan areas within Oregon. The accompanying table shows similar annual average pay levels for all counties in Oregon.

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HOURS & EARNINGS - READ THIS ARTICLE!

Graham Slater

The Oregon Employment Division is responsible for a monthly survey of employers (the Current Employment Statistics or CES survey) which produces estimates of employment, hours & earnings for Oregon and its Metropolitan Statistical Areas: Portland, Eugene, Salem, and Medford. (Employment estimates, but not hours & earnings, are provided for all other counties of the State.)

The recent fire-related situation in the logging industry caused well-publicized employment cutbacks. In addition, those still working suffered a major reduction in the hours they worked, and therefore in their total income. A related interview with a local journalist reminded me that most users spend little time looking at hours & earnings data. The purpose of this article is to

AVERAGE HOURS AND EARNINGS OF OREGON INDUSTRIAL PRODUCTION WORKERS[1]

	Average Weekly Earnings			Average Weekly Hours			Average Hourly Earnings		
	Oct.[2] 1987	Sept.[3] 1987	Oct. 1986	Oct.[2] 1987	Sept.[3] 1987	Oct. 1986	Oct.[2] 1987	Sept.[3] 1987	Oct. 1986
TOTAL MANUFACTURING[4]	$407.29	$406.83	$404.82	38.9	38.2	39.0	$10.47	$10.65	$10.38
Durable Goods	413.68	411.80	419.63	39.1	38.2	39.7	10.58	10.78	10.57
Lumber & Wood Products	402.26	405.48	422.14	37.7	37.2	39.9	10.67	10.90	10.58
Logging & Sawmills	406.66	410.29	451.76	35.3	34.8	40.3	11.52	11.79	11.21
Veneer & Plywood	414.86	424.91	410.90	40.2	40.7	39.7	10.32	10.44	10.35
Millwork & Structural	366.30	366.21	349.97	40.7	39.0	39.5	9.00	9.39	8.86
Mobile Homes	332.12	299.79	309.05	36.1	34.9	35.0	9.20	8.59	8.83
Other Wood Products	417.35	420.15	402.53	39.9	39.9	38.3	10.46	10.53	10.51
Furniture & Fixtures	340.58	321.84	330.68	36.7	35.8	41.7	9.28	8.99	7.93
Primary Metals	496.34	520.29	476.41	41.5	42.3	39.8	11.96	12.30	11.97
Fabricated Metals	370.40	371.33	373.18	39.7	38.4	39.2	9.33	9.67	9.52
Machinery (Ex Electrical)	452.09	438.80	427.58	41.4	40.0	38.8	10.92	10.97	11.02
Nondurable Goods	390.28	392.16	369.89	38.3	38.0	37.4	10.19	10.32	9.89
Food & Kindred Products	313.81	307.84	294.39	37.9	37.0	36.3	8.28	8.32	8.11
Canning & Preserving	271.74	265.36	245.00	37.9	36.5	35.1	7.17	7.27	6.98
Other Food Products	401.57	414.15	405.08	38.1	38.1	39.1	10.54	10.87	10.36
Textile Mill Products	240.07	215.76	243.89	36.1	33.4	39.4	6.65	6.46	6.19
Apparel	220.43	220.46	203.90	35.9	36.5	35.4	6.14	6.04	5.76
Paper & Allied Products	639.74	681.88	610.34	40.8	42.3	40.5	15.68	16.12	15.07
Printing & Publishing	441.56	458.90	426.82	37.2	37.4	36.7	11.87	12.27	11.63
Construction[4]	502.52	463.07	508.88	36.6	34.2	37.5	13.73	13.54	13.57
Communications & Utilities[5]	513.32	529.37	506.33	39.7	41.1	39.9	12.93	12.88	12.69
Trade[5]	292.66	301.69	286.11	33.6	34.4	33.7	8.71	8.77	8.49
Wholesale Trade	405.48	401.35	392.70	37.2	37.3	37.4	10.90	10.76	10.50
Retail Trade	238.61	254.54	235.84	31.9	33.1	32.0	7.48	7.69	7.37
Banking & Insurance[5]	317.40	314.09	300.51						
State & Local Government	374.65	384.36	353.89						

1/ Figures are average gross hours and earnings of full and part-time worked or paid for, including overtime and shift premium pay. Prepared in cooperation with the U.S. Department of Labor. All data are based on the 1972 Standard Industrial Classification (SIC) codes.
2/ Preliminary
3/ Revised
4/ Data for production workers only and exclude administrative, supervisory (above working foremen), technical, sales and office personnel.
5/ Data for nonsupervisory employees only, excluding proprietors and executive personnel. Data for retail trade excludes eating and drinking places.

spread the word that hours & earnings can offer useful insights not provided by the employment news alone.

Hours & earnings is no newcomer to the statistical scene. The first published (national) data came in 1933, and Oregon files contain information from as early as 1949 (with manufacturing average hourly earnings in the $1.70 range by the end of that year.)

Hours & earnings statistics generally portray the working conditions of an industry's *production (or nonsupervisory)* workers. Note also that these statistics refer to the *actual* situation, not the plan or schedule. In other words, a company reporting data may plan on working their employees 40 hours a week and paying $5.00 per hour. However, extra demand might cause some employees to work overtime, increasing the actual average weekly hours to 42.7 and raising the average hourly earnings (through overtime premiums) to $5.15. Thus hours & earnings statistics refer to the actual activity within an industry at any given time. Let us now proceed to document and demonstrate some of the uses of these data. (Except where indicated, the figures given in this article refer to 1986 annual averages.)

Average Weekly Hours (AWH)

1. This statistic has long been considered an excellent forecaster of future changes in employment. The rationale is that employers will work their existing work force harder (increasing overtime, increasing average weekly hours) to meet rising demand, before they will actually increase the work force. The same would be true in reverse as employers tend to reduce hours for current employees before introducing layoffs. The U.S. Bureau of Labor Statistics is currently researching this particular use to determine its continuing validity. Many long-held beliefs based on traditional industries may not hold true when applied to the newer and increasingly important service-sector industries.

Having said that, this predictor function of AWH still appears to have some relevance to Oregon. Between 1981 and 1987, the trend in lumber and wood products employment followed by one year the behavior in AWH. The following graph shows annual average percent change in lumber employment along with the corresponding change in lumber average weekly hours for the prior year. As can be seen, there is certainly a measure of consistency between the two statistics (though no analysis into a direct dependency has been attempted).

2. The AWH statistic reflects changes in the proportion of part-time employees in an industry or group of industries. Retail trade (with a high proportion of part-time workers) recorded a 1986 annual average of 32.5 hours compared with the manufacturing average of 39.0. Also, the 32.5 figure shows considerable decline compared with that of twenty years earlier (36.0), suggesting a long-term trend toward part time work in the retail sector.

3. Average weekly hours measures the impact of specific events. Returning to the logging situation in Oregon these past few months, average weekly hours fell from 38.1 in August to 27.4 in September, and remained low (28.2) in October. Early indications suggest a return to more normal levels, somewhere in the mid to high thirties, in November.

Average hourly and weekly earnings statistics can also be very useful for economic analysis and business planning. I'll discuss these two indicators in a subsequent issue of **Labor Trends**. □

1987 - YEAR IN REVIEW

Jeff Hannum

With one month to go it looks like Oregon's economy will rack up its best year of the decade, the fifth full year of economic growth! While the most publicized economic development this year (the collapse of the stock market "bubble" which culminated in the worst ever one day loss for stocks on October 19) will eventually have a negative effect on Oregon's economy, it hasn't yet made a dent in the State's key labor market indicators. In November, for example, Oregon's wage and salary employment jumped to another record high for the fifth time this year. At the same time, the seasonally adjusted unemployment rate dropped 0.6 points to 5.7%, the second lowest rate of any month during the 1980s. The lowest rate of 5.5% came earlier this year in May. Although a weaker economy is widely expected next year, this will be measured against an exceptionally strong 1987.

To get a quick reading of how well Oregon's economy and labor market fared throughout the past year look at the graphs showing monthly trends for Oregon's unemployment rate, nonfarm employment index and diffusion index. All three of these indicators are seasonally adjusted.

The State's unemployment rate improved dramatically between late 1986 and spring 1987, even dropping below the national rate for several months--the first time this has happened since the heydays of 1978. Mild winter weather coupled with low interest rates, a soaring stock market, and record demand for lumber and wood products provided the major stimulus. Although the unemployment rate drifted higher during the summer months, it will average 6.1% for the year, compared with 8.5% in 1986. The U.S. unemployment rate in 1987 will average 6.2%.

In 1987, even rural areas of Oregon experienced sharply lower levels of unemployment...

In recent years, improvement in the statewide unemployment rate reflected a very unbalanced recovery which was confined largely to the more economically diversified, service-oriented metropolitan areas of the State. Little to no growth was evident, however, in many rural areas so dependent upon natural resource industries in manufacturing and agriculture. Competition from imports and reduced exports due mainly to the overvalued dollar, plus commodity surpluses which depressed prices created severe cost pressures in many of these industries. To survive, companies restructured their operations so that fewer workers were needed, often at lower wages, to produce a larger quantity of goods.

In 1987, even rural areas of Oregon experienced sharply lower levels of unemployment due to record demand for forest products, a surge in exports brought about by increased competitiveness and the dollar's continuing decline, and favorable weather during much of the year. In October, for example, unemployment was lower than a year ago in all but three of Oregon's 31 local labor markets even though logging restrictions due to high fire danger were still in effect in many parts of the State. In November, only one local area had higher unemployment than a year ago.

Due to demographic shifts in the composition of the population and also

structural changes in the economy, some economists associate a national jobless rate of 6% with near "full employment". Although this term can mean different things to various people, in this context it means the lowest unemployment rate compatible with non-inflationary economic growth. Presumably, with jobless rates below 6% labor skill shortages and industrial capacity limitations begin to appear which eventually translate into higher wages and prices.

In Oregon, one indicator of a tighter labor market, in addition to the lower unemployment rate, is a 65% increase in nonfarm job openings unfilled at Employment Division local offices at the end of November (11,717) compared with the same period a year ago (7,107). Whether Oregon's economy is currently operating near its "full employment" threshold is debatable. What is clear is that employment surged to new record highs in 1987. This is reflected in the State's diffusion index, which has been at or above 60% for much of the year, and in the strong trend in the nonfarm wage and salary employment index in virtually every month except August and September.

The weakening trend shown by these indexes in late summer was due to several factors. First, Oregon's unusually mild, dry weather last winter and spring accelerated agricultural activities so that most crops were harvested and processed several weeks earlier than usual. Second, while dry weather benefited many industries last winter and spring, its persistence through the summer and fall created one of the worst forest fire seasons in decades, especially in Southern Oregon. As a result, logging employment plunged to record lows until cutting restrictions were lifted in late October. Although most wood products mills were able to keep operating during the forest closures, they did so by depleting their log inventories. Logging activity resumed full tilt in November, but many mills will be going into the winter months with short log decks. This could lead to some mill closures in early 1988 due to log shortages rather than a drop in demand for lumber and plywood.

A third factor which no doubt contributed to the recent slippage was the bad news on interest rates which began to rise sharply in the spring after having reached the lowest levels of the decade last winter. Mortgage interest rates, among others, began to climb in March as the Federal Reserve tightened monetary policy in an effort to prop up the sagging dollar and head off higher inflation.

The Fed's policy switch, in combination with many other factors, including the overvaluation of stocks and a growing lack of confidence in the Nation's political leadership to resolve two big problems (the federal budget deficit and the foreign trade deficit), brought an end to the five year bull market for stocks. The Dow Jones Industrial Average hit an all-time peak on August 25 at 2,722, then began to slide. On October 19, the bottom dropped out and the Dow plunged 508 points, or 23%, in one day.

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One of the most important developments following the stock market crash, especially for Oregon, was the quick policy reversal at the Federal Reserve. Instead of focusing on fighting inflation and stabilizing the dollar's foreign exchange value, the Fed moved quickly to pump money into the economy and lower interest rates in an effort to avoid a recession. Mortgage and other interest rates promptly fell, as did the dollar. How long the Fed will maintain this focus depends largely on progress in reducing the federal budget deficit and on international monetary policy cooperation.

Considering the turmoil in financial markets, it's perhaps surprising that Oregon's economy performed so well throughout 1987 as interest rates were rising. Higher mortgage rates between March (9%) and October (near 12%) took a toll on U.S. housing starts which declined from an annual rate of over 1.8 million units in January to about 1.5 million units in October, the lowest level in over four years. But the drop in mortgage rates after October 19 gave housing at least a temporary reprieve as starts rebounded to a rate of 1.64 million in November. For the year as a whole, however, starts will be down about 10% from last year's level of 1.82 million.

In Oregon, the trend of housing construction this year, as shown by building permits, was stronger. For the first ten months of 1987, the number of residential permits was up 14% over the same period a year ago. Both single-family (+ 12%) and multi-family (+ 18%) construction rose, contrary to the national trend (-3% and -25% respectively). One reason is that employment has increased faster this year in Oregon than in the Nation. Better job prospects coupled with the sharp drop in the unemployment rate helped to boost Oregon's population by 28,500 over the past year to a new record high (2,690,000). Half of the gain was caused by more people moving into Oregon than leaving the State.

While housing permits were on the rise, non-residential construction got off to a slow start this year due, in part, to delayed passage of a new federal highway bill (over the President's veto). The pace of non-residential contracting picked up speed, however, later in the year. Recently, the F. W. Dodge Division of McGraw-Hill cited Oregon as the hot spot in the Pacific NW market based on a 17% increase in contract volume for the first nine months of 1987 over 1986.

Another barometer of the State's construction market is the volume of "announced investments" tallied by Oregon's Economic Development Department. The latest report also showed a slow start in early 1987, but much higher volumes of planned investments in the spring and summer. The value of announced investments through September was $951 million, almost twice the pace in 1986. While three-fourths of this total represented commercial projects such as shopping centers, office buildings, and tourist/recreation facilities, a significant number of industrial projects were also noted. These included major expansions in the electronics, paper, and wood products manufacturing industries.

These investment plans are indicative of the growing optimism in many of Oregon's manufacturing industries...

These investment plans are indicative of the growing optimism in many of Oregon's manufacturing industries, especially those which stand to benefit from higher exports and less competition from imports. Although improvement in the trade deficit in dollar terms has been painfully slow, there has been a definite increase in the volume of our exports. Oregon's lumber and wood products industry is a good example. While the current export market is not nearly as big as the U.S. housing market, increased wood products exports this year helped to offset the decline in U.S. residential construction. Softwood lumber exports from the Columbia-Snake Customs District (formerly the Oregon Customs District) over the first nine months of 1987 were 383 million BF, up 29% from the same period a year ago. Export volumes were also up significantly for wood chips (+ 23%), logs (+ 13%), and plywood (+ 12%).

Employment gains in Oregon's manufacturing industries this year were not nearly as large, however, as production increases. Longer work weeks and higher productivity saw to that. Nevertheless, manufacturing employment averaged nearly 201,000 in 1987, an increase of 4,000, or 2% over 1986. Most of these new jobs came in the lumber and wood products industry which produced a record volume of building materials in 1987. Many other manufacturing industries also expanded during the year, including primary metals (especially aluminum producers), portions of the electronics industry, printing and publishing, and plastics manufacturing. These latter two industries, plus the millwork portion of lumber and wood products, recorded all-time employment highs in 1987.

As in past years, the real job creation machine in Oregon continued to be the service-producing industries.

Job declines in manufacturing this year were generally insignificant except for the loss of 1,100 in instruments and related products. Employment in high technology, overall, stabilized early in the year, however, at 29,000, and has been increasing slowly since May.

While manufacturing employment and production both jumped in 1987, real average hourly earnings of production workers continued to fall despite a low rate of inflation. Recent cuts in hourly wage rates in key industries like lumber and wood products account for the drop. If other forms of compensation were included, however, like profit sharing which is becoming more common, the trend in average earnings would be more favorable.

As in past years, the real job creation machine in Oregon continued to be the service-producing industries. Trade (+9,600); finance, insurance, and real estate (+3,000); services (+14,000); and government (+5,500) all reached record high employment levels in 1987. Business and medical services continued to gain rapidly. Even Oregon's lodging industry employed more people than ever before, attesting to the strength of tourism as well as business travel in 1987.

Visitor counts at the State's welcome centers (excluding new ones at Lakeview and Maryhill) were down slightly this year, but other travel indicators including motel/hotel occupancy rates, State Parks use, and passenger traffic through Portland International Airport showed gains. Some of these gains reflect an increase in the number of foreign visitors to Oregon this year, especially from Japan. Several factors account for this including the yen's dramatic rise in value over the past three years, a major expansion in direct airline service between Portland and Tokyo last March, a recent Japanese television series on Oregon, and the rapid growth of Japanese companies and investment in Oregon.

In addition to travel/tourism-related industries, there were two other sectors of Oregon's economy that saw improvement in 1987. Both the fishing industry and agriculture have had their share of problems in recent years. Despite a mini-El Nino effect, the State's fishermen had a very good year, both in terms of volume and value of fish landings. For example, the shrimp harvest is expected to be the third best ever, and this coupled with good prices will mean a record high value for the catch. The financial returns from ground fish and salmon landings will also be up sharply this year.

Economic improvement wasn't nearly as dramatic down on the farm, but there was progress nevertheless. Preliminary estimates from the OSU Extension Service indicate that gross farm sales rose 4.4% in 1987 to exceed $2 billion for the first time ever. Animal products (primarily cattle and calves) recorded the strongest sales gains (+6.5%), while the farm value of all crops increased 3.4%. As always in Oregon's highly diversified agricultural economy, there were both winners and losers. Favorable weather, especially last winter and spring, resulted in record high yields for some crops including strawberries and wheat. But price declines and a labor shortage at harvest time caused the total value of the strawberry crop to decline. For grain farmers, record yields were nearly offset by a large drop in wheat acreage. Aided by slightly higher prices, grain sales managed to increase nearly 5%.

All things considered, Oregon's economy was the biggest winner this year despite the roller coaster stock market.

In terms of gross farm sales, some of the big winners in 1987 were producers of grass and legume seeds (+18.5%), tree fruits and nuts (+10.5%), specialty products (+10.4%), and cattle and calves (+8.4%). The main losers were producers of hay and silage (-15%), small fruits and berries (-7%), and vegetable crops (-14.3%), primarily onions (-37%).

All things considered, Oregon's economy was the biggest winner this year despite the roller coaster stock market. Where we go from here, however, is the biggest unknown. That question will be the main topic for discussion in next month's issue of **Oregon Labor Trends.** □

OREGON LABOR TRENDS

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